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CJEU ruling in Huawei/ZTE leaves the door open to injunctive relief in SEP litigation

SPEED READ

The Court of Justice of the European Union (CJEU) today handed down its much-awaited decision in the Huawei v. ZTE dispute, in which it was asked to clarify whether and when standard essential patent (SEP) owners may seek and obtain injunctive relief.

The Court sought to strike a balance between the interests of implementers and consumers, on the one hand, and innovative SEP owners, on the other hand. In doing so, it tried to lay down guidelines of behaviour for both parties to follow, which make implementers immune from the threat of an injunction, and provide a safe harbour from antitrust enforcement to patentees.

The Court did recognise that SEP owners may seek and obtain injunctive relief, but only if they comply with two conditions: 1. they must alert the implementer of the infringement and 2. present a specific written offer on FRAND terms. If the implementer does not diligently respond to that offer, in accordance with recognised commercial practices in the field and in good faith, then injunctions can be sought and issued.

While this ruling provides useful guidelines to SEP owners and implementers alike, it leaves some essential questions unanswered: – When does ownership of an SEP confer a dominant position in the first place? How much is a FRAND rate and how should it be calculated? – and raises additional issues of its own.

It is therefore to be feared that the Court's ruling will not at all put an end to the wave of SEP litigation.

Background

A SCATTERED EUROPEAN LANDSCAPE

There is considerable inconsistency as to the availability of injunctive relief in relation to FRAND-obligated SEPs in the European Union. Whilst courts in the UK have yet to award an injunction on an SEP (and are seen as highly unlikely to do so), the courts in the Netherlands and France have issued injunctions more readily.

In Germany, meanwhile, the courts have applied the *Orange Book* Standard framework¹ meaning that a FRAND defence can only defeat a claim for an injunction if an unconditional and binding offer to enter into a licence agreement is made to the patent owner, on terms which could not be refused by the patent owner without being unfair or discriminatory. Notably, these terms require the implementer to waive its right to challenge both the validity and the actual standard-essentiality of the patent. They also put the burden on the implementer to state an at-least FRAND royalty rate² and require the implementer to behave as a licensee, by rendering accounts and either paying royalties to the patentee or at least placing the corresponding amounts in escrow.

This diverging litigation landscape encourages forum shopping and has arguably helped escalate the patent wars taking place in the telecoms sector, prompting the European Commission to intervene in the debate in its role

as competition enforcement authority. In particular, when Samsung and Motorola brought patent infringement cases in Europe on the basis of their respective SEPs against Apple, the Commission opened formal antitrust investigations against these two companies issuing Statements of Objections. These culminated in an Article 7 Prohibition decision against Motorola and an Article 9 Commitment decision in respect of Samsung on the 29 April 2014. The Commission has now published both of these decisions.³

¹ Developed by the German courts, in the *Orange Book* decision of the Federal Court of Justice of 6 May 2009 (file no. KZR 39/06, GRUR 2009, 694) and its progeny. Subsequent to the *Orange Book* decision, the German courts, which hear a large portion of European SEP infringement cases, have consistently applied the conceptual framework defined in that decision.

² Although that hurdle may be circumvented (according to subsequent case law) by leaving the determination of the FRAND rate to the courts.

³ http://ec.europa.eu/competition/antitrust/cases/dec_docs/39985/39985_928_16.pdf and http://ec.europa.eu/competition/antitrust/cases/dec_docs/39939/39939_1501_5.pdf

THE COMMISSION'S POSITION IN THE MOTOROLA AND SAMSUNG DECISIONS

It is clear from the Motorola and Samsung decisions that the Commission recognises that seeking injunctions is generally a legitimate remedy against a patent infringer.⁴ However, it considers that the context is different where injunctions are sought and enforced on the basis of SEPs for which voluntary commitments to license on FRAND terms have been made during the standard-setting process. In the Motorola case, Motorola was found to be dominant

on the relevant market (the market for the licensing of the technologies, as specified in the GPRS standard technical specifications, onto which Motorola's patent read) and had given a commitment to be prepared to license the relevant SEP on FRAND terms. Meanwhile the potential licensee, Apple, was considered to have been willing to enter into a licence agreement on FRAND terms and to pay FRAND compensation (a

“willing licensee”). The Commission therefore found that there was no need, or justification, for Motorola’s seeking of an injunction to protect its commercial interests, finding that Motorola had abused its dominant position and was in breach of Article 102 of the Treaty on the Functioning of the European Union (TFEU). Exceptionally, however, the Commission decided not to impose a fine on Motorola in view of the fact that there was “no case-law by the European Union Courts dealing with the legality under Article 102 TFEU of SEP-based injunctions and that national courts have so far reached diverging conclusions on this question”.

Similarly, the Commission’s preliminary conclusion in the Samsung case was that Samsung’s seeking of injunctions against Apple on the basis of its 3G UMTS SEPs (in particular in light of the Commission’s view that Apple was willing to obtain a licence over the patents on FRAND terms) constituted an abuse of a dominant position and hence a breach of Article 102 TFEU. As a result, the Commission accepted binding commitments from Samsung, including a commitment not to seek injunctive relief in the EEA in relation to any of its present and future SEPs for mobile devices for a period of five years, against

any potential licensee that agrees to accept a particular licensing framework for the determination of FRAND terms and conditions.⁵

The Commission claims that these decisions “*strike the right balance between the interests of patent holders, who should be fairly remunerated for the use of their intellectual property, and those of the implementers of standards, who should get access to the standardised technology without being “held up” through abuses of market power*”.⁶

⁴ “A patent holder, including holder of SEPs, is generally entitled to seek and enforce injunctions as part of the exercise of its IP rights. The seeking and enforcement of injunctions cannot therefore, in itself, constitute an abuse of a dominant position”, Motorola Prohibition Decision (Art. 102 Ex 82), published on the website on 09/07/2014, paragraph 278.

⁵ The licensing framework consists of a negotiation period of up to 12 months, and if the negotiation fails, third party determination of FRAND terms by either a court or arbitration.

⁶ Vice-President of the European Commission responsible for Competition policy, Joaquín Almunia, April 2014.

THE HUAWEI V. ZTE REFERRAL TO THE CJEU

The contrast between the German *Orange Book* practice – under which a defendant can only resist the **issuance** of an injunction under fairly stringent conditions – and the Commission’s view – according to which the mere **seeking** of an injunction from a court constitutes an abuse in many circumstances – is therefore striking.

That is the contradiction which the Landgericht Düsseldorf sought to resolve by referring five preliminary questions to the CJEU.⁷ The referral decision arose in an action brought by Huawei against ZTE for infringement of its European patent ‘essential’ to the Long Term Evolution (LTE) standard, developed by the European Telecommunications Standards Institute (ETSI). Huawei’s patent was notified to ETSI and consequently Huawei committed to being to grant licences to third parties on FRAND terms. Following a period of unsuccessful negotiation, Huawei sought an

injunction prohibiting the continuation of ZTE’s infringement, which was challenged by ZTE as an abuse of a dominant position. The case came to trial after the Commission had issued its Statement of Objections to Samsung over its pursuit of SEP-based injunctions against Apple.⁸

As a result, the Landgericht Düsseldorf saw a need for clarification in order to ensure consistency between its own decisions under the stringent German *Orange Book* Standard framework, and the Commission’s press release at the time of issuance of the Statement of Objections. It therefore referred five questions to the CJEU, the wording of which closely mirrored the requirements of the *Orange Book* framework.

The referral questions were as follows:

1. Does the proprietor of a standard-essential patent who informs a standardisation body that he is willing to grant any third party a licence on fair, reasonable and non-discriminatory terms abuse his dominant market position if he brings an action for an injunction against a patent infringer although the infringer has declared that he is willing to negotiate concerning such a licence?

or

is an abuse of the dominant market position to be presumed only where the infringer has submitted to the proprietor of a standard-essential patent an acceptable, unconditional offer to conclude a licensing agreement which the patentee cannot refuse without unfairly impeding the infringer or breaching the prohibition of discrimination, and the infringer fulfils his contractual obligations for acts of use already performed in anticipation of the licence to be granted?

2. If abuse of a dominant market position is already to be presumed as a consequence of the infringer's willingness to negotiate: Does Article 102 TFEU lay down particular qualitative and/or time requirements in relation to the willingness to negotiate? In particular, can willingness to negotiate be presumed where the patent infringer has merely stated (orally) in a general way that that he is prepared to enter into negotiations, or must the infringer already have entered into negotiations by, for example, submitting specific conditions upon which he is prepared to conclude a licensing agreement?

3. If the submission of an acceptable, unconditional offer to conclude a licensing agreement is a prerequisite for abuse of a dominant market position: Does Article 102 TFEU lay down particular qualitative and/or time requirements in relation to that offer? Must the offer contain all the provisions which are normally included in licensing agreements in the field of technology in question? In particular, may the offer be made subject to the condition that the standard-essential patent is actually used and/or is shown to be valid?

4. If the fulfilment of the infringer's obligations arising from the licence that is to be granted is a prerequisite for the abuse of a dominant market position: Does Article 102 TFEU lay down particular requirements with regard to those acts of fulfilment? Is the infringer particularly required to render an account for past acts of use and/or to pay royalties? May an obligation to pay royalties be discharged, if necessary, by depositing a security?

5. Do the conditions under which the abuse of a dominant position by the proprietor of a standard-essential patent is to be presumed apply also to an action on the ground of other claims (for rendering of accounts, recall of products, damages) arising from a patent infringement?

⁷ Order dated 21 March 2013 (file no. 4b O 104/12, GRUR-RR, 196 – LTE-Standard)

⁸ http://europa.eu/rapid/press-release_IP-12-1448_en.htm

The Court's ruling

After Advocate General Wathelet issued his opinion on 20 November 2014, the Court took time to carefully consider the issues. It has now handed down its ruling in a decision of 16 July 2015.

The Court started with a reminder of the principles resulting from its case-law concerning the exercise of IP rights by undertakings in a dominant position. It recalled

that “*the exercise of an exclusive right related to an intellectual property right ... , even if it is the act of an undertaking holding a dominant position, cannot in itself constitute an abuse of a dominant position*”⁹ The Court added that such an exercise “*may, in exceptional circumstances, involve abusive conduct for the purposes of Article 102 TFEU*”.¹⁰

Importantly, in the Court's view, the situation of SEPs is different from those considered in previous cases, first because SEPs are "indispensable to all competitors which envisage manufacturing products that comply with the standard" and second because, under the procedures of standard-setting organisations, "the patent at issue obtained SEP status only in return for the proprietor's irrevocable undertaking ... that it is prepared to grant licences on FRAND terms".¹¹ Because of this, the Court felt that, "a refusal by the proprietor of the SEP to grant a licence on [FRAND] terms may, in principle, constitute an abuse within the meaning of Article 102 TFEU", which "may be raised in defence to actions for a prohibitory injunction or for the recall of products".¹²

On the basis of this premise, the Court designed a process to be followed by SEP owners – and indeed implementers – before seeking injunctive relief. The first step of that process is for the SEP owner to "alert the alleged infringer of the infringement". Importantly, this must be done "by designating that SEP and specifying the way in which it has been infringed".¹³

The second step is for the SEP owner "to present to that alleged infringer a specific, written offer for a licence on FRAND terms (...) specifying, in particular, the amount of the royalty and the way in which that royalty is to be calculated".¹⁴ According to the Court, the patent owner is best placed to determine the content of a FRAND offer, insofar as the requirement for non-discrimination is concerned. This places the onus of making the offer on the patent owner, rather than the prospective licensee, a departure from the German *Orange Book* practice.

After the offer has been formulated, according to the Court "it is for the alleged infringer diligently to respond to that offer, in accordance with recognised commercial practices in the field and in good faith", without any "delaying tactics". This response could obviously take the form of an acceptance of the SEP owner's offer. If not, "the alleged infringer (...) may rely on the abusive nature of an action for a prohibitory injunction or for the recall of products only if it has submitted to the proprietor of the SEP in question, promptly and in writing, a specific counter-offer that corresponds to FRAND terms".¹⁵

The Court also addresses the question of the parties' respective obligations until they are able reach an

agreement on FRAND terms. Importantly, the Court in this respect obliges "the alleged infringer, from the point at which its counter-offer is rejected, to provide appropriate security" and to also "be able to render an account in respect of [past] acts of use".¹⁶ In this respect, the Court appears to have upheld one aspect of the German *Orange Book* practice. The Court further underlines that, when no agreement on FRAND terms is found, "the parties may, by common agreement, request that the amount of the royalty be determined by an independent third party, by decision without delay". Finally, the Court rules that "an alleged infringer cannot be criticised either for challenging, in parallel to the negotiations relating to the grant of licences, the validity of those patents and/or the essential nature of those patents to the standard in which they are included and/or their actual use, or for reserving the right to do so in the future".

Recapitulating the thrust of its ruling, the Court held that:

"The proprietor of an SEP, which has given an irrevocable undertaking to a standardisation body to grant a licence to third parties on FRAND terms, does not abuse its dominant position, within the meaning of Article 102 TFEU, by bringing an action for infringement seeking an injunction prohibiting the infringement of its patent or seeking the recall of products for the manufacture of which that patent has been used, as long as:

- *prior to bringing that action, the proprietor has, first, alerted the alleged infringer of the infringement complained about by designating that patent and specifying the way in which it has been infringed, and, secondly, after the alleged infringer has expressed its willingness to conclude a licensing agreement on FRAND terms, presented to that infringer a specific, written offer for a licence on such terms, specifying, in particular, the royalty and the way in which it is to be calculated, and*
- *where the alleged infringer continues to use the patent in question, the alleged infringer has not diligently responded to that offer, in accordance with recognised commercial practices in the field and in good faith, this being a matter which must be established on*

the basis of objective factors and which implies, in particular, that there are no delaying tactics.”

The Court separately responded to the question concerning court actions by SEP owners seeking monetary damages, rather than injunctive relief. In that respect, the Court held that there cannot be an abuse of a dominant position because actions for damages, unlike actions for injunctions, are not “*liable to prevent products complying with the standard in question manufactured by competitors from appearing or remaining on the market*”.

⁹ § 46

¹⁰ § 47

¹¹ §§ 49 and 51

¹² §§ 53-54

¹³ § 61

¹⁴ § 63

¹⁵ § 65-66

¹⁶ § 67

Commentary

The court has explicitly tried to find a middle path, to “*strike a balance between maintaining free competition (...) and the requirement to safeguard that proprietor’s intellectual-property rights and its right to effective judicial protection*”. In doing so, it has attempted to lay down guidelines that provide a safe harbour to both implementers and SEP owners: by following them, implementers are immune from the threat of injunctions, while SEP owners need not fear antitrust enforcement.

However, beyond the fact that – as underlined by the Court itself – the application of these guidelines to specific cases will require fact-intensive enquiries (e.g., to determine the content of “recognised commercial practices in the field and in good faith”), the principles laid down by the Court raise some additional questions. The Court has also voluntarily left other issues entirely unresolved. These will no doubt remain the subject of future litigation.

HOW WOULD THE LITIGATION PROCESS WORK IN PRACTICE?

According to the Court, before seeking an injunction, an SEP owner must make “*a specific, written offer for a licence on FRAND terms*”. There had been extensive debate in the legal community on whether it is realistic to ask the patentee to enter into a negotiation with what is essentially his final price; some argue that requiring a patentee do act so would be contrary to common commercial practice. The Court did not necessarily take a position on this topic: what it said, however, is that before being able to seek an injunction, the patentee must have presented an offer that is FRAND, “*in accordance with the undertaking given to the standardisation body*”. Whether this would remain the case in the face of an implementer

who plainly refuses to negotiate, or does so in clear bad faith, remains to be tested.

After the patentee’s offer has been issued, the Court considers that the implementer still has two choices: either accepting it, or promptly submitting a counter-offer that corresponds to FRAND terms. It is not entirely clear from the Court’s ruling whether this second option is also available to the implementer in situations where the patent owner’s initial offer was itself FRAND-compliant; in particular, would refusing a FRAND-compliant offer still be “*in accordance with recognised commercial practices in the field and in*

good faith”, as the Court requires implementers to behave?

This question is of crucial importance, as it determines whether the implementer or SEP owner is able to tailor the ambit and principles of the licence. It is accepted that a FRAND-compliant licence can be limited to a single patent and to a single country, or can be a worldwide FRAND-compliant licence for an entire portfolio of SEPs relating to a single standard. The implementer and patentee will often have divergent interests as far as the determination of the scope of the licence is concerned. Whether the implementer

can impose his terms – by being able to defeat a claim for injunction through a counter-offer to an offer that was itself FRAND – or whether that will be the patentee’s latitude – if the implementer is obliged to accept an offer that is FRAND-compliant – will certainly be litigated in future cases.

DOES OWNERSHIP OF AN SEP CONFER A DOMINANT POSITION?

It was common ground between the parties to the Huawei v. ZTE case that Huawei was, by virtue of its ownership of LTE-essential patents, in a dominant position. The Court took care to specifically point to this twice in its ruling, thus concluding that it was bound to confine its analysis to the existence of an abuse.¹⁷

And indeed, the existence of such a dominant position is, within the framework of analysis currently used – Article 102 of the TFEU – the pre-condition to the application of the set of rules resulting from that position. In that respect, the relevant market has been defined as the market for the technology at stake (i.e., in this case, the LTE technology market) rather than the market of the products concerned (i.e., in this case, LTE-compatible products). The theory is, that through the ownership of a single patent essential to a standard, the owner of that patent can act as a “gatekeeper” to the standard – irrespective of the existence of other SEPs – and is therefore *ipso facto* in a dominant position.¹⁸

However, there has been some expression of discomfort with the idea that the ownership of a single SEP would automatically place its owner in a dominant position. Critics remind that, under the consistent doctrine of the CJEU since the 1979 *Hoffmann La Roche* decision¹⁹, an undertaking is in a dominant position when it has “*the power to behave to an appreciable extent independently of its competitors, its customers and ultimately of the consumers*”. Now, critics say, SEPs (or declared-essential patents) do not automatically place their owners in a position to act in this way, for a number of reasons. The patented feature may in fact be designed around in a way

that does not prevent the product from being standard-compatible, or the feature may be optional within the standard. The standard at stake – or the functionality concerned within the standard – may in fact not be market-essential, in the sense that undertakings could compete on the product market without implementing the patented functionality, such that the SEP owner could not act as a “gatekeeper”. Furthermore, insofar as SEP owners are themselves implementers of the standard, they would also depend on other SEP owners, with the result that none of them could “*behave independently of its competitors*”. In the end, instead of a hard-and-fast rule, critics call for a case-by-case appreciation of whether the ownership of a particular SEP (or portfolio of SEPs) indeed confers a dominant position on their owners.

Those theories appear to have gained some traction in recent litigation: in a recent decision, the Landgericht Düsseldorf – the very Court which referred the Huawei v. ZTE case to the CJEU – decided to proceed with an SEP infringement case despite the defendant’s request to stay the action pending the CJEU’s ruling in Huawei v. ZTE.²⁰ The Court indeed found that the specific standard at stake – near field communication on SIM – was not market-essential, as other types of near-field communication could be implemented without preventing access to the product market. Because of that factual finding, the Court considered that the outcome of the Huawei v. ZTE referral was irrelevant to the case before it, as the SEP-owning claimant was not in a dominant position at all.

Because the CJEU could not provide guidance on this question due to the parties' submissions in the dispute before it, the way in which market dominance will be assessed in SEP infringement cases remains to be determined.

¹⁷ §§ 28 and 42

¹⁸ “SEPs are patents essential to implement a specific industry standard. It is not possible to manufacture products that comply with a certain

standard without accessing these patents. This may give companies owning SEPs significant market power” (EU Commission Press Release, 29 April 2014 http://europa.eu/rapid/press-release_IP-14-490_en.htm)

¹⁹ 13 February 1979, *Hoffmann La Roche*, C 85/76

²⁰ Landgericht Düsseldorf, 26 March 2015, *France Brevets v. HTC*, file number 4bO140/13

HOW SHOULD A FRAND ROYALTY RATE BE CALCULATED?

Of course, parties generally do not end up litigating because of questions relating to the negotiation process. Rather, they litigate because they are unable to find an agreement on the amount of the FRAND royalty rate.

Many different theories are being proposed in this respect, with at least as many critics of those theories. Fundamental issues have not been resolved, such as the appropriateness of methods based on (sometimes refined) patent counting, the relevance of the royalty stacking issue, the determination of the appropriate royalty basis (final product sold to the consumer or “smallest sellable unit”). None of these questions were put before the Court and it did not provide any guidance in this respect. Instead, it invited parties to submit that issue to an “*independent third party*” to the extent that they cannot agree on the rate. This was also the Commission’s position, which believes that

courts and arbitrators are best-placed to set FRAND rates if parties cannot agree them.²¹

It is noteworthy that both the Commission in the Samsung and Motorola cases, and the CJEU in this case, have thus focussed on the process of resolving FRAND disputes. None of them, however, addressed the fundamental underlying issue of the way in which a FRAND rate should be calculated, the methodology that should be employed and the factors that are or are not relevant to the calculation. Until those questions have been clarified, it is to be feared that FRAND disputes will continue to flourish.

²¹ http://europa.eu/rapid/press-release_MEMO-14-322_en.htm

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